Research has confirmed what envious employees have long suspected – they are happier if they don’t know what their colleagues earn. According to a study by the Nottingham School of Economics, the idea that wages are best kept secret is well founded, as efficiency is likely to suffer once they become public. The average employee reacts negatively if he learns a colleague is better off, whereas if he remains in ignorance he will respond favourably when it comes to his own pay-packet. The findings lend fresh weight to the argument that publicising pay levels can cause “substantial harm” to workplace morale and damage productivity.

The research concluded that, irrespective of his pay level, a worker puts in more effort in response to a wage offer made in secret rather than in public.

As might be expected, his willingness to work hard is most damaged by the discovery that a colleague is earning a much higher wage.

In an experiment in which one of two publicly known wages was pre-fixed – reflecting circumstances in which external rules govern certain pay – the detrimental effects of comparisons were found to be even more pronounced.

Research basis
Almost 200 volunteers took part in a series of experiments carried out at the School’s Centre for Decision Research and Experimental Economics. Subjects were split into groups of three and randomly assigned designated roles – either a first employee, a second employee or an employer.

The employer was asked to decide whether to pay each worker a low, medium or high wage – represented by £1, £4 and £7 respectively.

Each of the workers then had to respond to his wage by indicating whether he considered it merited a low, medium or high effort level.

In the first experiment neither employee knew his colleague’s pay, while in the second each was made aware of what his workmate was earning.

In the third the employer set only one wage, with the other predetermined to reflect situations in which external regulations might dictate certain pay conditions.

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**Key findings**

- The average worker is likely to be happier if he has no knowledge of what his fellow employees earn in comparison to his own wage.
- A worker is more likely to reduce his level of effort if he discovers his colleague is better paid.
- The higher the co-worker’s wage by comparison, the more likely an employee is to respond negatively.
- Publicising respective wages can negatively impact on morale, empathy between workers and overall productivity.
Comments and implications

Study author Daniele Nosenzo said: “Our results support the argument that confidentiality can minimise the damage that arises out of negative responses to inequalities.

“We found that having information about how your colleague’s wage compares to your own is likely to be detrimental on several levels.

“Firstly, it does substantial harm to reciprocal relations between employee and employer, as the worker is simply less willing to put in effort.

“Secondly, the employee becomes less inclined to empathise with or care about his fellow workers or to behave in a way that benefits them.”

The notion that publicising wages leads to ill feeling among workers has traditionally been used by many firms to support the idea of keeping respective pay levels secret.

Nosenzo added: “What is clear overall is that employers trigger more effort when their employees are not aware of what their co-workers are earning.

“Generally speaking, we have to remember that the availability of information about how others are treated can affect how we view our own treatment.

“This is turn can affect the way we behave – and perhaps nowhere more so than in the workplace, which is already a complex social environment.”

About the NSE

The Nottingham School of Economics is one of the UK’s leading teaching and research departments.

It has a world-class reputation for its research on a broad range of subjects, particularly globalisation, experimental economics and time series econometrics.

Its economists have advised organisations including the Treasury, the Bank of England, the World Bank, the Commonwealth Secretariat, the IMF and the Department for Work and Pensions.

The School’s standing among the elite economics departments in the UK was reinforced by the 2008 Research Assessment Exercise, which ranked its “research power” among the top three in the country.

www.nottingham.ac.uk/economics/

CeDEx

The Centre for Decision Research and Experimental Economics (CeDEx) was founded in 2000 and is based in the School of Economics at the University of Nottingham.

The Centre’s focus is on research into individual and strategic decision-making using a combination of theoretical and experimental methods.

For more information contact cedex@nottingham.ac.uk.

Daniele Nosenzo

Daniele Losenzo joined the Nottingham School of Economics in 2006. His current research is focused on social comparisons and preferences and how these affect the behaviour of individuals and organisations.

For more information, contact:

Neil Robinson, Bulletin Academic
Telephone: +44 (0) 115 922 8264
Mobile: 07855 259806
Email: neil.robinson@bulletinac.co.uk